

## Table of Contents

<b>Executive Summary.....</b>	<b>ES-1</b>
<b>1 Introduction .....</b>	<b>1-1</b>
1.1 Background.....	1-1
1.2 Regional Energy Infrastructure Study Goals.....	1-1
1.3 Study Approach .....	1-2
1.4 Organization of Report .....	1-2
<b>2 Situation Assessment.....</b>	<b>2-1</b>
2.1 Overview of the Region.....	2-1
2.1.1 Definition of the San Diego Region and the Changing Bi-national Energy Landscape .....	2-1
2.1.2 The Crisis of 2000–2001 .....	2-1
2.1.3 Uncertainty of Energy Supply to Support Economic Growth .....	2-4
2.2 The Prognosis for 2002 and Beyond.....	2-4
2.3 The Drivers of Energy Demand and the Need for Supply: The Region's Demographics.....	2-5
2.3.1 Geography and Population .....	2-5
2.3.2 Economic Indicators: Employment, Gross Regional Product and Energy Intensity.....	2-7
2.3.3 Energy Intensity.....	2-7
2.3.4 Housing .....	2-8
2.3.5 Land Use, Economic Development and Energy Infrastructure Development .....	2-8
2.4 Environmental Issues .....	2-8
2.4.1 Air Quality and Non-Attainment .....	2-8
2.4.2 Water Quality and Availability .....	2-9
2.5 Stakeholder Issues .....	2-10
2.5.1 Key Stakeholders: Interests and Roles .....	2-11
2.6 Challenges, Threats and Opportunities.....	2-16
2.7 The Challenges of Market Design and Performance.....	2-21
<b>3 Natural Gas Demand, Supply and Infrastructure.....</b>	<b>3-1</b>
3.1 Summary Findings .....	3-1
3.1.1 Short-Term Findings (Now to 2006) .....	3-1
3.1.2 Mid-Term Findings (2006–2010) .....	3-2
3.1.3 Long-Term Findings (Post 2010) .....	3-2
3.2 Natural Gas Demand, Supply and Prices .....	3-2
3.2.1 Natural Gas Consumption and Growth.....	3-2
3.2.2 Natural Gas Demand Forecast.....	3-2
3.2.3 Natural Gas Prices .....	3-5
3.3 The Natural Gas Supply Chain.....	3-7
3.3.1 SoCalGas System Descriptions and Capacities .....	3-9
3.3.2 SDG&E System Description and Capacities .....	3-9
3.3.3 Slack Capacity on the SDG&E and SoCalGas Systems.....	3-10

3.4	Gas Utility System Planning Criteria .....	3-10
3.4.1	Capacity Additions on the SDG&E System .....	3-11
3.4.2	SoCalGas System Planning Criteria.....	3-13
3.4.3	SoCalGas Capacity Additions.....	3-13
3.5	Natural Gas Infrastructure Policy Issues – Who Should Fund, Develop and Build the Natural Gas Infrastructure in Order to Make it Available in a Timely Manner to Meet the Needs of the Region and to Prevent Imbalances in Supply and Demand? .....	3-13
3.6	Other Regional Infrastructure Projects.....	3-14
3.6.1	The North Baja Pipeline Project .....	3-14
3.6.2	LNG (Liquified Natural Gas) .....	3-15
3.6.3	Underground Natural Gas Storage .....	3-17
3.7	Regulatory Proceedings and Issues .....	3-17
3.7.1	The Role of the CPUC .....	3-17
3.7.2	Core vs. Noncore Conflicts – What to Do.....	3-17
3.7.3	The Integration of SoCalGas and SDG&E Gas Operations .....	3-18
3.7.4	The Peaking Tariff.....	3-18
3.8	Important Implications and Considerations for the Region.....	3-19
<b>4</b>	<b>Electricity Demand, Supply, and Infrastructure.....</b>	<b>4-1</b>
4.1	Summary Findings .....	4-1
4.1.1	Short Term 2002–2006 .....	4-1
4.1.2	Mid Term 2006–2010 .....	4-1
4.1.3	Long Term Post 2010 .....	4-2
4.2	Electricity Demand and Consumption Trends and Forecasts .....	4-2
4.2.1	Historical Energy Consumption .....	4-2
4.2.2	Per Capita Electricity Growth and Energy Intensity .....	4-3
4.3	Electricity Supply: Generation and Transmission.....	4-4
4.3.1	Existing Generation Stock in San Diego County.....	4-4
4.3.2	New Generation Infrastructure .....	4-7
4.4	San Diego County's Electric Power Market .....	4-9
4.4.1	The Need for New Power Plants .....	4-11
4.4.2	Repowering Existing Power Plants.....	4-11
4.4.3	New Power Plants in Baja California .....	4-12
4.5	Electricity Transmission.....	4-12
4.5.1	The Role of Transmission and Advantages and Disadvantages .....	4-12
4.5.2	Transmission Issues .....	4-14
4.6	Other Issues Affecting Electricity Supply .....	4-17
4.6.1	Effects of State Executive, Legislative, Regulatory and Policy Decisions.....	4-17
4.6.2	Federal Initiatives .....	4-19
4.6.3	Local Initiatives .....	4-20
<b>5</b>	<b>Demand-Side Options: Energy Efficiency, Demand Response, Distributed Generation and Renewables .....</b>	<b>5-1</b>
5.1	DSM, DG and Renewable Opportunities: Summary of General Findings .....	5-1
5.1.1	Energy Efficiency and Demand Response.....	5-1
5.1.2	DG and Renewable Resources .....	5-1
5.1.3	Short Term (2002-2006) .....	5-2
5.1.4	Mid Term (2006-2010) .....	5-2
5.1.5	Post-2010 Time Period .....	5-3

5.2	Background.....	5-3
5.2.1	Energy Efficiency.....	5-3
5.2.2	Public-Good Energy Efficiency Programs .....	5-4
5.2.3	Distributed Generation (DG) and Renewable Programs.....	5-4
5.3	Key Energy Efficiency and Demand Reduction Programs .....	5-5
5.3.1	Results: Market Impacts and Cost Effectiveness.....	5-8
5.3.2	Environmental Impacts.....	5-9
5.4	DG Technologies .....	5-10
5.4.1	DG Technology Comparison.....	5-10
5.4.2	Framework for Evaluating Role of DG .....	5-10
5.4.3	DG Applications.....	5-11
5.4.4	Customer-Based DG.....	5-11
5.4.5	System-Based DG .....	5-12
5.5	Distributed Generation Market Overview .....	5-12
5.5.1	Inventory of DG in San Diego Region.....	5-13
5.5.2	Landfill Gas.....	5-14
5.5.3	Hydro Power.....	5-16
5.5.4	Photovoltaics.....	5-16
5.6	Fuel Cells.....	5-18
5.7	Renewable Energy Technologies.....	5-19
5.7.1	Wind.....	5-19
5.7.2	Potential for Wind .....	5-20
5.7.3	Summary: Wind.....	5-20
5.8	Solar Water Heating .....	5-20
5.9	Geothermal .....	5-22
5.10	Effective Market Potential of DG in the San Diego Region .....	5-22
5.11	Potential Customer Benefits .....	5-23
5.12	Other Regional Benefits .....	5-24
5.13	Potential Utility Benefits .....	5-25
5.14	Economic Development Impacts of Energy Efficiency and Distributed Generation .....	5-25
5.15	Potential Investment Impacts of Energy Efficiency, Demand Response and Distributed Generation on the Local Economy .....	5-26
5.16	Disadvantages of DG to the San Diego Region.....	5-27
5.16.1	Economics.....	5-28
5.16.2	Price of Energy.....	5-28
5.16.3	Regulatory Issues and Tariffs .....	5-28
5.16.4	Inability to Wheel Power Offsite .....	5-29
5.16.5	Interconnection .....	5-30
5.16.6	Net Metering .....	5-30
5.16.7	Tariffs.....	5-30
5.16.8	Departing Load Fee .....	5-31
5.16.9	Permitting .....	5-31
5.17	Air Permits .....	5-32
5.18	Local Building Permits .....	5-33
5.19	Role of Local Governments in Deploying DG .....	5-33
5.20	Streamline Permitting for DG .....	5-34
5.21	Identify and Address Barriers.....	5-34
5.22	DG Demonstration.....	5-34
5.23	Revenue Bonds to Procure DG.....	5-34
5.24	CA Power Authority .....	5-34

5.25 Recommended Actions for Promoting Energy Efficiency, Demand Response, and Expanding DG/Renewables .....	5-34
5.25.1 Energy Efficiency and Demand Response.....	5-34
5.25.2 DG/Renewables .....	5-35
<b>6 Options and Scenario Analysis.....</b>	<b>6-1</b>
6.1 Summary Findings of the Analysis.....	6-1
6.1.1 Short Term (2002–2006) .....	6-1
6.1.2 Medium Term (2006–2010) .....	6-2
6.1.3 Long Term (2010 and Beyond).....	6-3
6.2 Background.....	6-3
6.3 The Scenarios .....	6-3
6.4 The Resource Balance: Supply and Demand Balance with Energy Efficiency and DG-Renewable Resource Options.....	6-6
6.4.1 Caveats .....	6-11
6.5 Wholesale Electric Price Forecast.....	6-12
6.5.1 Methodology and General Assumptions .....	6-12
6.5.2 Long Run Marginal Cost (LRMC) of Electric Generating Capacity.....	6-13
6.5.3 Other Assumptions .....	6-14
6.6 Results.....	6-18
6.6.1 Capacity Price Forecasts .....	6-18
6.6.2 Energy Price Forecasts.....	6-20
6.6.3 California Department of Water Resources (CDWR) Long-Term Power Contracts.....	6-21
6.6.4 California Financial Investment Climate and Cost of Building Plants in San Diego County .....	6-21
<b>7 Recommendations.....</b>	<b>7-1</b>
7.1 Background.....	7-1
7.2 Considerations for Key Infrastructure Development.....	7-2
7.2.1 Short Term (2002–2006) .....	7-2
7.2.2 Mid Term (2006–2010) .....	7-4
7.2.3 Long Term (Post 2010).....	7-5
<b>Appendix A: Contributors, Authors, and Acknowledgements.....</b>	<b>A-1</b>
<b>Appendix B: List of Acronyms Used in This Study.....</b>	<b>B-1</b>
<b>Appendix C: Glossary of Terms Used in This Study.....</b>	<b>C-1</b>
<b>Appendix D: Demand and Generation Scenarios and Forward Prices.....</b>	<b>D-1</b>
<b>Appendix E: Natural Gas System Data.....</b>	<b>E-1</b>
<b>Appendix F: Power System Data .....</b>	<b>F-1</b>
<b>Appendix G: COMPASS Modeling.....</b>	<b>G-1</b>

## List of Figures

2-1	Average Weekly Electricity Prices at Palo Verde.....	2-2
2-2	SDG&E System Average Price – Pre-2000 Forecast Compared to Current Forecast.....	2-3
2-3	Natural Gas Prices at the Permian Basin and the So. CA Border .....	2-3
2-4	The Steady Decline of the Dow Jones Utility Average .....	2-4
2-5	Population, Housing, Employment, Electricity, and Natural Gas Consumption Growth Rates – Historical and Forecast.....	2-6
2-6	Per Capita Electricity Consumption .....	2-6
2-7	Electricity and Gas Energy Intensity .....	2-7
3-1	Natural Gas Demand 5-Year Growth Rates .....	3-3
3-2	Natural Gas Consumption.....	3-3
3-3	Natural Gas Consumption by Sector .....	3-4
3-4	Natural Gas Consumption for Electric Generation, WSCC.....	3-4
3-5	Natural Gas Price at the Basin.....	3-6
3-6	Natural Gas Storage Levels .....	3-6
3-7	San Diego Gas Supplies from Five Major Gas Basins.....	3-7
3-8	Detailed Map of SDG&E Natural Gas Distribution System .....	3-8
3-9	Map of the Baja Norte Pipeline .....	3-15
4-1	Electricity Consumption.....	4-2
4-2	Electricity Demand by Sector.....	4-3
4-3	Peak Electricity Demand by Sector .....	4-4
4-4	Projected Cumulative Retirements of Generating Units in San Diego County .....	4-5
4-5	Projected Cumulative Net Additions and Retirements of Generating Units in San Diego County .....	4-8
4-6	Projected New Plant Development in the San Diego Region .....	4-10
5-1	Peak Demand Contribution for Large Offices.....	5-3
5-2	Demand Impacts of Programs, 2006–2030.....	5-7
5-3	Energy Savings Impacts of Programs, 2006–2030 .....	5-8
5-4	Natural Gas Savings Impact of DSM Program Scenarios .....	5-9
5-5	Wind Speeds By Location in San Diego County .....	5-19
6-1	Scenarios and Key Assumptions .....	6-3
6-2	WECC Region.....	6-14
6-3	New Generating Projects in the WECC.....	6-16
6-4	Capacity Prices, 2002–2030 .....	6-18
6-5	Forward Energy Prices .....	6-20

## List of Tables

2-1	Strengths, Weaknesses, Opportunities, and Threats for the San Diego Region .....	2-17
3-1	Retail Natural Gas Price Estimates .....	3-5
3-2	Natural Gas Cost Component Range and Variability Factors .....	3-6
3-3	Slack Capacity Under Different Weather Scenarios Shows Adequate Backbone Transmission Capacity through 2006 .....	3-10
3-4	SDG&E Firm Service Day (FSD) Demand .....	3-11
3-5	SDG&E Potential Facility Expansion Projects.....	3-12
3-6	Summary of Proposed Mexico LNG Facilities.....	3-16
4-1	New Generating Units Entering Service in 2001 .....	4-7
4-2.	Constraints in Building New Power Plants in Southern California .....	4-9
5-1	Summary of Demand and Energy Impacts of Energy Efficiency and Demand Response Programs .....	5-6
5-2	Summary of DSM Program Life Cycle Costs and Impacts .....	5-7
5-3	Emission Impacts of Demand Response Programs .....	5-10
5-4	Comparison of DG Technologies .....	5-11
5-5	DG Capacity in San Diego County .....	5-13
5-6	CHP by Technology .....	5-13
5-7	Estimated Remaining CHP Potential in the C&I Market, San Diego .....	5-14
5-8	Existing Landfill and Wastewater Gas-Fired Generator.....	5-15
5-9	Hydro Facilities in the San Diego Region .....	5-16
5-10	Estimates of Effective Incremental Market Potential for DG .....	5-27
5-11	Summary of Economic Impacts of Demand Side and DG Options .....	5-26
6-1	Description of Demand and Supply Scenarios.....	6-5
6-2	Supply/Demand Balance Assuming Optimistic Energy Efficiency and DG-Renewables, 2006–2030 .....	6-7
6-3	Supply/Demand Balance Assuming Worse Case Supply, Energy Efficiency, and DG-Renewables, 2006–2030 .....	6-7
6-4	Base Case Moderate Demand Growth and Optimistic Supply, 2002–2030 .....	6-9
6-5	High Demand Growth and Worse Case Supply Scenario .....	6-10
6-6	High Demand Growth and Optimistic Supply, 2002–2030 .....	6-12
6-7	Natural Gas Prices Delivered to Electric Generating Units.....	6-15
6-8	Projected Full Load Heat Rates by Technology Projected to Be Achieved in the Period 2002–2030.....	6-16
6-9	Installed Cost of Various Generation Technologies .....	6-16
6-10	Forward Capacity Values.....	6-19
6-11	Average Energy Price by Scenario.....	6-20